

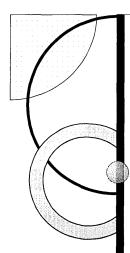
Community Action Organization of Western New York, Inc. and Subsidiaries

Report to the Board of Directors

January 29, 2019

Szymkowiak Associates

CPAsPC



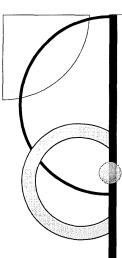
Szymkowiak Associates CPAs PC

o Overview

We have audited the financial statements of Community Action Organization of Western New York, Inc. and Subsidiaries (the "Organization") as of and for the year ended February 28, 2018, and have issued our reports thereon. In addition, we have audited the financial statements of the Organization's defined benefit plan and 403(b) plan for the year ended December 31, 2017, and audited the financial statements of St. Martin Village ("SMV").

Our professional standards require that we communicate with you certain matters that may be of interest to you in fulfilling your responsibility to oversee the financial reporting and disclosure process. These matters include:

- ✓ Our responsibility under generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance.
- ✓ Reports on financial statements
- ✓ Significant accounting policies of the Organization
- ✓ Management's judgments and accounting estimates
- ✓ Financial statement disclosures
- ✓ Quality of accounting principles
- ✓ Significant audit adjustments and contingencies
- ✓ Unadjusted differences
- ✓ Disagreements with management





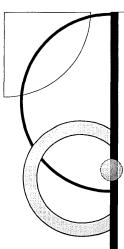
Overview (continued)

- ✓ Consultation with other accountants
- ✓ Difficulties encountered in performing the audits
- ✓ Errors, fraud and illegal acts
- ✓ Independence
- ✓ Other information in documents containing audited financial statements
- ✓ Other matters
- ✓ Control environment
- ✓ Accounting and auditing developments

Of the matters mentioned above, the following are deemed significant and appropriate to communicate to the Board of Directors.

Our Responsibility

As defined by auditing standards generally accepted in the United States of America, our audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions. There were no restrictions on our audit scope.



Szymkowiak & Associates CPAs PC

• Reports on Financial Statements

We have issued an unmodified report on the Organization's and SMV's financial statements for the period ended February 28, 2018 and December 31, 2017, respectively. We have issued an unmodified report on the Organization's Single Audit compliance for the period ended February 28, 2018.

We have also issued an unmodified opinion on the Organization's internal control over financial reporting and over major programs for the period ended February 28, 2018. We considered the Organization's internal control for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

We have issued a disclaimer of opinion on the defined benefit plan and the 403(b) plan for the year ended December 31, 2017, which is a standard practice when trustees oversee the management of the plan assets.

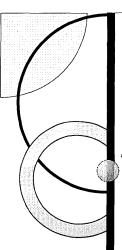
Significant Accounting Policies of the Organization

There were no material changes in accounting policies during the period ended February 28, 2018.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Those judgments are based on knowledge and experience about past and current events and assumptions about future events. Actual results could differ from management's estimates.

4





o Financial Statement Disclosures

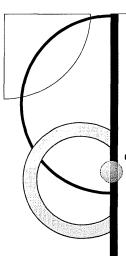
The financial statement disclosures are neutral, consistent and clear.

Quality of Accounting Principles

We will discuss with the Board of Directors our views on the quality of the Organization's accounting principles and underlying estimates during our presentation of the February 28, 2018 financial statements.

Significant Audit Adjustments

Material audit adjustments, individually or in the aggregate, proposed and recorded as a result of our audit will be discussed at your January 2019 meeting. The most significant adjustment related to rolling forward retained earnings from the prior year audit as many of our prior period adjusting entries were not recorded correctly into the financial records. The audit adjustments were in most parts relating to the maintenance of the accounting records, as will be discussed later in this report.



Szymkowiak Associates CPAs PC

Summary of Unadjusted Differences

As a result of our audits, we did not note any material unadjusted differences.

Disagreements with Management

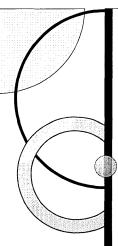
We had no disagreements with management over the application of accounting principles, the basis for accounting estimates, audit scope, disclosures in the financial statements or content of our reports.

Consultation with Other Accountants

We are not aware of any consultations management has had with other accountants.

Difficulties Encountered in Performing the Audits

- ✓ We received full cooperation from the management and employees of the Organization and were given complete access to accounting records, supporting documents, and all other information we requested.
- ✓ We believe all significant matters and issues are being communicated to us by management on a timely basis.



o Errors, Fraud and Illegal Acts

During the course of our audits, we did not become aware of any errors, fraud or illegal acts.

Independence

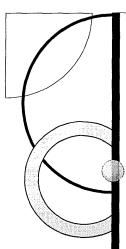
We confirm that we are independent within the rules of the AICPA.

Other Information in Documents Containing Audited Financial Statements

We have prepared the Organization's Federal Form 990 / CHAR 500. Although we did not prepare the Forms 5500, we ensured that the information in these documents was consistent with the information presented in the financial statements.

Other Matters

No major issues were discussed with management bearing upon our appointment as independent accountants for the periods ended February 28, 2018 or December 31, 2017.



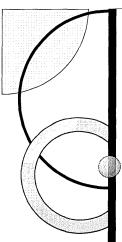
Szymkowiak Associates CPAs PC

o Control Environment

As part of our audits, we considered the Organization's internal control over financial reporting in order to design our auditing procedures. Our consideration of the internal controls was not focused on expressing an opinion on the effectiveness of the Organization's internal control. Statement of Auditing Standards No. 115, "Communicating Internal Control Related Matters Identified in an Audit," states that a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, detected or corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness.

As a result of our consideration of the control environment, we noted the following recommendations for improvements in internal control:

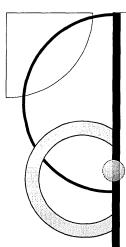


Szymkowiak Associates CPAsPC

Control Environment (continued)

During our audit procedures, it was identified that the trial balance was not maintained on a current basis, resulting in delays in the audit process. Retained earnings reconciliation issues also resulted from the trial balance not being maintained on a current basis. The eventual reconciliation of account balances did not occur until mid-November 2018, a few weeks prior to the financial statement filing deadline. We also identified that the accounts receivable ledger was not maintained on a current basis, resulting in adjustments and delays in the auditing of revenue and accounts receivable. Given the reconciliation issues encountered, we recommend that management ensure the trial balance and accounts receivable general ledgers are maintained on a current basis going forward. This would help to ensure that monthly financial statements are properly reported, and that timing delays and reconciliation issues do not occur during the year-end audit process. As noted in previous years, implementation of a new accounting software that integrates well with the Organization's grant management software would assist in resolving this recommendation.

Management Response - Noted. Departmental staffing changes occurred to assist in ensuring monthly reconciliations. The Organization supports this recommendation as well as determining selection of a financial reporting and accounting software, of which we will review proposals.

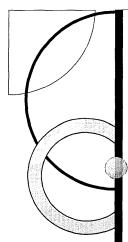


Szymkowiak Associates | CPAs PC

Control Environment (continued)

✓ As will be discussed during our walk-through of the financial statements, we noted that the Organization generated a significant cash outflow from its operations during the year ended February 2018. From our audit procedures, it appears that the losses occurred as the expenses of the Organization grew beyond budget due to items such as health care costs and CCP build-out expenses. This item may not have been identified during the course of the year due to the trial balance reconciliation issues discussed on page 9 of this report. To ensure operating outflows are identified in a more timely manner going forward, we recommend that the Organization more closely monitor budget variances going forward.

Management Response - Noted. The Organization experienced unforeseen nonrecurring costs associated with the self funded drug plan and program related build out expenses. We have recently hired a facility manager to assist with facility related projects.

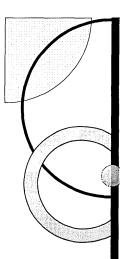


Szymkowiak & Associates CPAs PC

Control Environment (continued)

✓ In connection with our testing of the DART clinic, we identified in certain instances that there were variances between amounts charged by the clinic to the insurance carrier and the underlying support provided by the clinic, variances between the service provided by the clinic as reported to the insurance carrier and the service description in supporting files provided by the clinic, variances between the amount invoiced to the insurance provider and the amount recorded as revenue by CAO, and instances where patient signatures were not received for services performed at the DART clinic. Upon further investigation by the manager of the clinic, it was identified that many of the items identified above related to transcription errors, and that this issue will be resolved upon the DART clinic's transition to a new electronic medical record software provider, TenEleven Group. Although the errors identified were not material to the audit, given the number of variances identified from our limited sample size, and the risk of errors being identified upon any New York State audit of the clinic, we recommend that the Organization institute enhanced controls within the DART clinic surrounding patient services, invoicing, and receipt of patient signatures.

Management Response - Noted. The Organization and DART have transitioned to a new electronic medical record software provided, TenEleven Group, who also provides the DART clinic billing software.

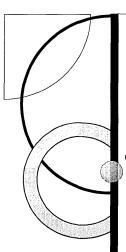


Szymkowiak Associates CPAs PC

Control Environment (continued)

- ✓ In connection with the Organization's on-going review of its finance function policies, procedures, and processes, we offer the following recommendations:
- Reorganize the finance department such that the Budget Analyst works primarily on grants and budgeting. Currently, this individual is also responsible for the audit and trial balance preparation.
- Hire a controller or promote current personnel to manage the audit and maintain the trial balance. This individual's primary responsibility would be to maintain the accounting records that are reported to the Board on a monthly basis. This employee should also be a key member of the team implementing the new accounting software platform.
- Consider hiring an internal audit manager to perform spot audits at the Organization's multiple locations
- Consider hiring or promoting current personnel as a purchasing and inventory control manager. This employee's primary responsibility would be to ensure purchasing efficiencies are identified and preserved by the Organization.
- Update the policies and procedures manual for the changes above and for the changes that will result from implementation of a new accounting software platform

Management Response – The Organization supports this recommendation and is in the midst of determining selection of a financial reporting and accounting software as well as finalizing roles and responsibilities.

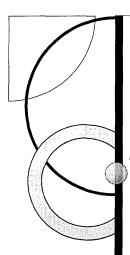


Szymkowiak Associates CPAs PC

Control Environment (continued)

✓ During our payroll, defined benefit and defined contribution audit procedures, we identified variances between information reported in the financial records and the underlying audit support. These variances included: (1) the program that the employee worked varied between the timecard and the human resource action forms, and (2) demographic variances (i.e. DOB, DOH) existed between personnel files and trustee/actuary records. To ensure these items are improved in the future, we recommend that the payroll and human resource department monitor demographic and personnel data going forward on a more regular basis.

Management Response – The Organization supports this recommendation and HR and Fiscal are implementing ADP Workforce Now human resource system.

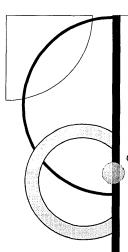


Szymkowiak Associates CPAsPC

Control Environment (continued)

The Organization does not currently maintain a record of fixed assets purchased with grant awards, as required by governmental agencies for any purchases in excess of \$5,000. It was brought to our attention that this schedule would be difficult to create and update within the current software. We thereby recommend that the Organization create this schedule off-line until a new accounting software platform is implemented, at which time the schedule should be maintained and updated on-line.

Management Response – Noted. The Organization supports this recommendation, however single purchases greater than \$5,000 are infrequent and expensed for grant purposes with supporting documentation. The new accounting software will include a fixed asset module.

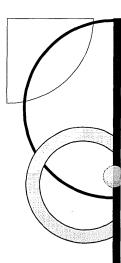


Szymkowiak & Associates | CPAs PC

Control Environment (continued)

During our audit procedures, we audited a number of invoices from a consultant, J. Walker Consulting, and a related entity owned by his son, EPEC. During these procedures, we identified that the supporting invoices provided by both entities did not list the program covered by the consulting procedures, leading to a possible mis-allocation of expenses across grants. We also identified that there has not been a bidding process for the services provided by J. Walker Consulting, which would serve as a basis for verifying that the rates charged by the consultant are competitive. Accordingly, to ensure that these consulting services are properly bid and reported in the accounting records, we recommend enhanced documentation of the invoices provided by J. Walker Consulting and EPEC going forward. We also recommend that a formal bidding process be completed to verify that the pricing for these services is appropriate.

Management Response – The Organization supports this recommendation.

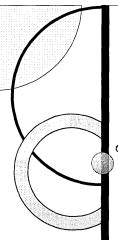


Szymkowiak Associates CPAs PC

Control Environment (continued)

✓ During our audit procedures, it was identified that in-kind accounting records and in-kind rent calculations were not maintained on a current basis. Maintenance of such accounting records is required to ensure that the in-kind requirements of the Head Start and other grant agreements are met. To ensure that these grant requirements are met in future periods, and supported by accounting records, we recommend that management monitor and track in-kind on a more current basis going forward, including the calculation of in-kind rent for the Organization's locations.

Management Response – Noted. The Organization has conducted fair market value assessments and will conduct further training with programs to improve processes.



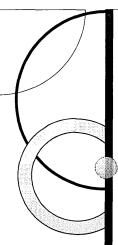
Szymkowiak & Associates | CPAsPC

Control Environment (continued)

Prior Year Report:

✓ Consistent with previous audits, we noted failure to remit participant contributions to the defined contribution plan on a timely basis, which is a prohibited transaction. The DOL requires that employee contributions be remitted to the plan as soon as they can be reasonably segregated from the general assets of the plan sponsor. We recommend that the Organization take steps to decrease the amount of time taken to remit participant contributions. We also recommend that the Organization remediate previous year late contributions to the retirement plan. This can be accomplished through the Department of Labor's voluntary correction program.

Management Response – Noted. The Organization supports this recommendation and will prepare information for the voluntary correction program, as well as work with ADP and Mutual of America for better payment processing integration.



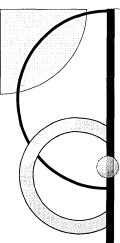
Szymkowiak Associates CPAs PC

Control Environment (continued)

Prior Year Report:

✓ During our retirement plan procedures, we identified that in certain instances our calculation of employer matching contribution amounts did not reconcile to the amounts contributed by the employer. We also identified in other instances that employees received matching contributions prior to the date they were eligible to receive an employer match. Upon further investigation, it appeared that the variances were attributable to compensation changes, or improper application of the employer matching dates. Although not material to the retirement plan audit, to ensure that employer contributions are properly calculated going forward, we recommend that the Organization institute enhanced controls as it related to employer contributions.

Management Response - The Organization supports this recommendation and with the transition to ADP Workforce Now and integration of Mutual of America automatic opt in as a percentage, this functionality will enable more accurate calculation of contributions.



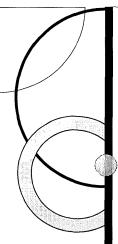
Szymkowiak & Associates | CPAs PC

Control Environment (continued)

Prior Year Report:

✓ CAO is one of four developers in the SMV project, and as such is entitled to receipt of developer fee income over a period of time. Payment of developer fees is dependent among other things on the successful rental of low income housing units by SMV and achievement of Break-Even operations. In addition, these criteria are also vital to the majority owner in the project, Key Community Development Corporation ("KCDC"), receiving low income housing credits from their investment in the project. As of the date of the financial statements, the ability of SMV to achieve Break-Even operations remains in question, which calls into question the ability of the Organization to receive developer fees and the ability of KCDC to receive the low income housing credits. In addition, should low income housing credits not be received by KCDC, KCDC has the ability to seek retribution to CAO for lost credits. Further, SMV's long-term debt instruments contain provisions that may require immediate repayment should the compliance issues identified above not be met. Given the potentially significant impact of the items identified above, we recommend that management thoroughly monitor and provide oversight to the operations of SMV, including their ability to achieve Break Even Operations and rental of low income housing units.

Management Response – The Organization supports this recommendation. Since year end 2/28/14, we have been working closely with the operator of St. Martin Village, Key Bank, and our lawyers to develop strategies to assist in improving operations, reviewing financial activity, working with New York State Community Preservation Corporation, and Division of Housing and Community Renewal.



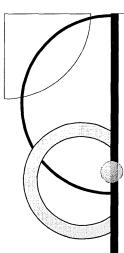
Szymkowiak Associates CPAs PC

Control Environment (continued)

Prior Year Report:

✓ St. Martin Village Housing Development Fund Company is the holding company for the Organization's investment in SMV. This entity is registered as a not-for-profit entity in New York State by statute. However, for federal purposes, the entity is registered as an S Corporation, subject to income tax. To eliminate future income tax requirements for the Housing Development Fund Company, we recommend that the Organization consider a change in tax status to a not-for-profit entity for federal purposes. If the Organization decides to move forward with this recommendation, counsel should be advised to draft the not-for-profit application documents.

Management Response – The Organization supports this recommendation.



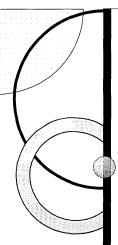
Szymkowiak & Associates | CPAsPC

∘ Control Environment (continued)

Prior Year Report:

✓ The defined benefit plan maintains assets from a legacy defined contribution plan. We were unable to obtain signed agreements that document the contribution of the defined contribution assets to the defined benefit plan, or the maintenance and ultimate distribution of the defined contribution assets. We recommend that the Organization consult legal counsel to ensure that appropriate signed documents are in place relating to its retirement plans.

Management Response – Based on information received from our actuary, ACSI, there was not a signed agreement for the transactions because the information dated back to 1975 and there was no ability to clearly separate the two plan amounts. Management and the pension committee will determine next steps with our new actuary, The Burke Group, to determine distribution plan.



Szymkowiak Associates CPAs PC

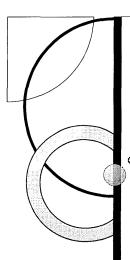
o Control Environment (continued)

Prior Year Report:

✓ As part of our review of the Organization's defined benefit plan, we identified that a number of plan participants did not commence required minimum distributions and several terminated vested employees over age 65 did not commence benefits. We recommend that the Organization work with its actuary and accounting department to ensure that these items are corrected and properly handled going forward.

Management Response – The Organization supported this recommendation and worked with our new actuary, The Burke Group, to effect a lump sum distribution for eligible plan participants.

At this time, we believe that steps should be taken to further strengthen the internal control and management of the Organization's financial reporting and recordkeeping functions to prevent potential future material weaknesses and control deficiencies.



Accounting and Auditing Developments

During 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU represents one of the more substantive changes in not-for-profit financial reporting during recent years. The new standard is designed to allow entities to provide more relevant information about their resources and changes in resources to financial statement users.

Significant changes included in the new standard are as follows:

- Provide in the notes qualitative information about how an entity manages its liquid available resources and liquidity risks. Also, an entity should provide quantitative information in the footnotes or on the face of the balance sheet that communicates the availability of financial assets to meet cash needs for general expenditures within the next year.
- Report expenses by function and nature, as well as provide analysis of expenses by both function and nature in the footnotes.
- Eliminate the current equity classifications (unrestricted, temporary, permanent) and replace with Net Assets with Donor Restrictions and Net Assets without Donor Restrictions.

ASU 2016-14 is effective to the Organization for the February 28, 2019 audit.





Accounting and Auditing Developments (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*. The main change in accounting proposed by ASU 2016-02 that impacts the Organization is the requirement to recognize operating leases on the balance sheet as assets and liabilities. Previously, operating leases were off-balance sheet items that were generally only recognized on the income statement when rent payments were made. With the implementation of ASU 2016-02, these obligations will be presented as an asset and liability at an initial amount equal to the present value of the remaining minimum lease payments. These assets and liabilities will be released to the income statement over the lease term and recorded as a single lease cost in the MG&A section of the income statement.

ASU 2016-02 is effective to the Organization for the February 28, 2021 audit.